
**DOUGLAS COUNTY ADMINISTRATIVE
POLICIES AND PROCEDURES**

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SUBJECT: FINANCIAL POLICIES FOR ENTERPRISE FUNDS

I. PURPOSE

To establish financial policies and goals to fund and manage enterprise funds within Douglas County consistent with the budget directive of having the full cost (direct and indirect) of providing services supported by each fund. These policies address reserves, debt service coverage and ratemaking policy and timing for implementation of new rates.

Enterprise Fund Definition

An enterprise fund is a type of fund enabled through Nevada Revised Statute (*NRS 354.517*) to account for the operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is to have the expenses (including depreciation) of providing goods or services on a continuing basis to the general public, financed or recovered primarily through user charges.

II. POLICIES

It shall be the policy of Douglas County to establish enterprise funds for all County owned utilities, with the goal of fully recovering all direct and indirect costs under its control through user fees, connection fees and related charges. Each utility is to establish water user rates, connection fees and related charges sufficient to provide for the payment of general operations and maintenance expenses, capital improvements, annual depreciation, annual debt service, and to establish and maintain reserves necessary to ensure the financial stability of each fund.

1. Reserve Levels

Cash reserves are a necessary and appropriate part of prudent utility management practices. The County maintains separate accounting for operating, capital, and other cash reserves, as described below. Reserve levels are established for each type of reserve.

Operating Reserve:

Operating reserves provide a cushion to ensure sufficient working capital to meet daily and periodic expenditures. Reserve levels are generally expressed in number of days of cash operating expenses, with the minimum requirement varying with the expected risk of unanticipated needs. The funding level shall be a minimum of 60 days with a goal of 90 days (25%) of annual O&M expenses.

Capital Project Reserve:

Capital reserves hold loan and bond proceeds, other capital-related revenues (such as connection charge revenue), and transfers from the operating fund designated for capital construction projects. The capital reserve is intended to mitigate the impact of unanticipated capital costs on rates. The County's goal is to fund the capital reserve at 2.0% of the total (original) cost of utility fixed assets.

Emergency Reserve:

Emergency reserves provide funding for minor equipment failures. These reserves are not intended to cover the costs of system-wide failures resulting from catastrophic events which are ordinarily covered through the purchase of insurance. The minimum emergency reserve balance is \$50,000 with a goal of \$75,000.

Debt Proceeds Reserve:

Debt proceed reserves provide for the unspent proceeds of the debt, including related interest earnings. Debt proceeds and the interest earned on these proceeds will be maintained in restricted accounts until expended.

System Replacement Reserve:

System replacement reserves (annual depreciation) provide for the replacement of aging and failing infrastructure to ensure sustainability of the system for ongoing operations. Consistent with common industry practice, the County uses depreciation expenses as the benchmark for the appropriate level of funding from rate-payers. Annual depreciation is a non-cash expense intended to recognize the consumption of utility assets over their useful lives. Collecting the amount of annual depreciation expense through user rates helps to ensure that existing ratepayers pay for the use of the assets serving them (rate equity) with cash flow funding a portion or all of the eventual replacement of those assets.

It is the County's goal to use system replacement funds received from existing customers for the purpose of upgrading and replacing existing infrastructure. Funds for the expansion of a system should come from contributed capital from new development, connection fees, assessments, or other sources so that those benefiting directly from the improvement contribute the funds for its construction.

For all existing assets, the County's goal is to fund system replacement at 20% annually until 100% of the annual depreciation expense is funded. The annual funding for system replacement for new assets will be 100% from the date of system acquisition or acceptance (notice of completion or offer of dedication).

2. Debt Service Coverage

The coverage test is based on a commitment made by the County when it issues bonds to investors. Annual coverage equal to or above the debt service payment is a requirement of bond issues and some other long-term debt. Failure to comply with the minimum annual coverage requirement can lower the County's bond rating and jeopardize its ability to sell revenue bonds in the future. Higher coverage levels can result in more favorable bond terms.

The minimum required coverage factor assuming debt financing through the Nevada State Bond Bank is 1.0 – meaning no additional cushion above the level of annual debt service is required. However, the County's goal is to set rates sufficient to maintain a coverage factor of at least 1.25. This practice enhances the County's creditworthiness and improves its financial position if the County decides to raise revenue by selling its own revenue bonds, which typically require a factor around 1.25 to 1.35. Excess revenues generated to meet the internal policy can be used to fund capital projects or to help build other under-funded reserves.

III. RATE MAKING POLICY AND PROCEDURE

Each year in January the Public Works Director and staff shall present a report to the Douglas County Board of County Commissioners detailing the prior fiscal year's actual revenues and expenses in each of the enterprise funds. This annual report must address the fiscal condition of the fund and make recommendations to the Board for changes in rates to achieve the stated financial policies. Any rate changes must be heard during a public hearing in February of that year with implementation effective July 1 of the next new fiscal year.

IV. RESPONSIBILITY FOR REVIEW

The Public Works Director and Comptroller will review this policy as needed or at least once every five (5) years and present the findings to the Board of County Commissioners.

V. GENERAL AUTHORITY

Nothing contained within this policy prohibits the Board of County Commissioners from deviating from the County's financial policies and funding goals, as they find reasonably necessary, to address economic conditions as part of any rate-setting process provided,

however, any change does not violate state law, existing bond or loan covenants, or generally accepted accounting practices.